

KIRWIN IRRIGATION DISTRICT NO. 1

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2012

**MARY E. ANDERSON
Certified Public Accountant
Osborne, Kansas**

KIRWIN IRRIGATION DISTRICT NO. 1
FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

TABLE OF CONTENTS

	PAGE NUMBER
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
SUMMARY OF CASH RECEIPTS, CASH DISBURSEMENTS, AND UNENCUMBERED CASH	3
SUMMARY OF EXPENDITURES – ACTUAL AND BUDGET	4
STATEMENT OF CASH RECEIPTS AND EXPENDITURES- ACTUAL AND BUDGET	
GENERAL FUND	5
STATEMENT OF CHANGES IN LONG-TERM DEBT	6
SCHEDULE OF MATURITY OF LONG-TERM DEBT	7
NOTES TO FINANCIAL STATEMENTS	8
SUPPLEMENTARY INFORMATION	
DETAIL EXPENDITURES COMPARED WITH BUDGET	
GENERAL FUND	13

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Kirwin Irrigation District No. 1
Gaylord, Kansas

We have audited the accompanying financial statements prepared on the statutory basis of accounting of Kirwin Irrigation District No. 1 (a Kansas quasi-municipality) as of and for the year ended December 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note A, Kirwin Irrigation District No. 1 has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.


In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Kirwin Irrigation District No. 1 as of December 31, 2012, or the changes in its financial position for the year then ended.

In our opinion, the financial statements prepared on the statutory basis of accounting referred to above present fairly, in all material respects, the cash and unencumbered cash balances of Kirwin Irrigation District No. 1, as of December 31, 2012, and their respective cash receipts and disbursements, and budgetary results for the year then ended, on the basis of accounting described in Note A.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Kirwin Irrigation District No. 1's basic financial statements. The schedule of expenditures compared with budget is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures compared with budget has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the use of the Board and management and the cognizant federal and state agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which upon acceptance by Kirwin Irrigation District No. 1 is a matter of public record.

August 8, 2013


Mary E. Anderson
Certified Public Accountant

KIRWIN IRRIGATION DISTRICT NO. 1

SUMMARY OF CASH RECEIPTS, CASH DISBURSEMENTS, AND UNENCUMBERED CASH

For the Year Ended December 31, 2012

<u>Fund</u>	<u>Beginning</u> <u>Unencumbered</u> <u>Cash Balance</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending</u> <u>Unencumbered</u> <u>Cash Balance</u>	<u>Outstanding</u> <u>Encumbrances</u> <u>and Accounts</u> <u>Payable</u>	<u>Ending Cash</u> <u>Balance</u>
General	\$ 448,758	\$ 570,577	\$ 643,808	\$ 375,527	\$ 2,367	\$ 377,894
Composition of cash:						
Demand deposit accounts:						
The Farmers Bank, Gaylord, KS						\$ 17,125
Money market accounts:						
The Farmers Bank, Gaylord, KS						109,132
Certificates of deposit:						
The Farmers Bank, Gaylord, KS						251,637
						\$ 377,894

The notes to the financial statements are an integral part of this statement.

KIRWIN IRRIGATION DISTRICT NO. 1

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2012

<u>Fund</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Favorable (Unfavorable)</u>
General	\$441,467	\$ 201,946	\$ 643,413	\$ 643,808	\$ (395)

The notes to the financial statements are an integral part of this statement.

KIRWIN IRRIGATION DISTRICT NO. 1

GENERAL FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Cash Receipts			
Special Assessment -			
County Treasurer	\$371,632	\$ 371,467	\$ 165
Interest	1,693	-	1,693
Miscellaneous	5,046	-	5,046
Reimbursements - Bureau of Reclamation	75,685	70,000	5,685
Reimbursements - Other	107,591	-	107,591
Reimbursements - WID	<u>8,930</u>	<u>-</u>	<u>8,930</u>
Total Cash Receipts	<u>570,577</u>	<u>\$ 441,467</u>	<u>\$ 129,110</u>
Expenditures			
General & Administrative	\$257,389	\$118,000	\$ (139,389)
Other Operating Expenditures	<u>386,419</u>	<u>323,467</u>	<u>(62,952)</u>
Total Expenditures	<u>643,808</u>	<u>441,467</u>	<u>(202,341)</u>
Adjustment for Qualifying Budget Credits	<u>-</u>	<u>201,946</u>	<u>201,946</u>
Total Expenditures	<u>643,808</u>	<u>\$ 643,413</u>	<u>\$ (395)</u>
Receipts Over (Under) Expenditures	(73,231)		
Unencumbered Cash, Beginning	<u>448,758</u>		
Unencumbered Cash, Ending	<u>\$ 375,527</u>		

The notes to the financial statements are an integral part of this statement.

KIRWIN IRRIGATION DISTRICT NO. 1

SUMMARY OF CHANGES IN LONG-TERM DEBT

For the Year Ended December 31, 2012

<u>Payable To:</u>	<u>Interest Rate</u>	<u>Date of Contract</u>	<u>Amount of Contract</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Payments</u>	<u>Balance End of Year</u>
U.S. Department of Interior							
Article 5B - Water Supply	0%	1/1/2003	\$ 664,990	11/1/2042	\$546,892	\$20,064	\$ 526,828

The notes to the financial statements are an integral part of this statement.

KIRWIN IRRIGATION DISTRICT NO. 1

SCHEDULE OF MATURITY OF LONG-TERM DEBT

For the Year Ended December 31, 2012

	YEAR					
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>TOTAL</u>
					<u>THEREAFTER</u>	<u>TOTAL</u>
PRINCIPAL						
U.S. Department of Interior	\$ <u>20,064</u>	\$ <u>20,064</u>	\$ <u>20,064</u>	\$ <u>19,488</u>	\$ <u>17,198</u>	\$ <u>526,828</u>

The notes to the financial statements are an integral part of this statement.

KIRWIN IRRIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the statutory basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies:

1. Financial Reporting Entity

The District is a Kansas quasi-municipal corporation organized under the provisions of K.S.A. 42-701 through 730. It is governed by an elected three-member board.

2. Basis of Presentation - Fund Accounting

The accounts of the District are organized and operated on the basis of funds. In governmental accounting, a fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the District for the year ended December 31, 2012:

General Fund - reports as the primary fund of the District. The fund is used to account for all financial resources not reported in other funds.

3. Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For interfund transactions, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c) waiving the requirement for application of generally accepted accounting principles and allowing the District to use the statutory basis of accounting.

KIRWIN IRRIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the District are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

5. Accounting for Capital Assets and Depreciation

The District does not maintain a record of capital assets used in performance of general government operations as required by generally accepted accounting principles.

6. Reimbursements

The District records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

7. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds.

8. Property Tax Calendar

Property taxes are collected from land owners within the district and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half on May 10th. Major property tax payments are received January through July and are recognized as revenue in the year received.

KIRWIN IRRIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures during the year of purchase as required by state statutes.

10. Compensated Absences

Full time employees will begin with 80 hours of vacation with a maximum of 240 hours that can be accumulated. No vacation leave is paid out upon termination. As of December 31, 2012, the total liability for vacation appears to be immaterial. This total potential liability is not reflected in the financial statements.

Full time employees are also eligible for sick leave. Employees will begin with 40 hours of sick leave with a maximum of 240 hours that can be accumulated. No sick leave is paid out upon termination. As of December 31, 2012, the total liability for sick leave appears to be immaterial. This total potential liability is not reflected in the financial statements.

11. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the statutory basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - DEPOSITS AND INVESTMENTS

At December 31, 2012 the District's carrying amount of deposits, including certificates of deposit, was \$375,527 and the bank balance was \$377,894. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was covered by FDIC insurance and pledged securities.

The construction contract and amendments with the U.S. Department of the Interior Bureau of Reclamation effective January 1, 2003, among other things, provides for the accumulation and maintenance of two reserve funds.

A Water Supply Reserve Fund is to be maintained to meet extraordinary operation and maintenance costs incurred on the water supply works. Annual deposits of \$2,293 were to be made in the years 2003 and 2004 and beginning in the year 2005 annual deposits to the fund increased to \$11,465 and continue until the funds accumulated reach the ceiling amount of \$440,256. The required balance in this reserve account was \$96,306 at December 31, 2012 and the actual balance was \$103,036 at December 31, 2012.

KIRWIN IRRIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012

NOTE B - DEPOSITS AND INVESTMENTS (continued)

A Distribution Works Reserve Fund is to be maintained to cover extraordinary operation and maintenance costs incurred on the distribution works. An initial deposit of \$20,000 was to be made followed by annual deposits of \$1,147 in the years 2003 and 2004 and beginning in the year 2005 annual deposits to the fund increased to \$10,319 and continue until the funds accumulated reach the ceiling amount of \$414,416. The required balance in this reserve account was \$104,846 at December 31, 2012 and the actual balance was \$102,593 at December 31, 2012.

NOTE C - LONG-TERM DEBT

A 40-year contract with the U.S. Department of the Interior Bureau of Reclamation was signed on June 20, 2002 with an effective date of January 1, 2003. Under the contract the District negotiated its water supply repayment obligation to a fixed contract amount. On December 13, 2005 the first amendment to the contract was signed which resulted in a renegotiated payment schedule, due to the 2005 annual payment being deferred. Per the contract the District's repayment obligation for the water supply is payable in two equal semi-annual payments on April 1 and November 1 with the final installment due in 2042. Per the amendment the District shall make base water supply payments of \$17,772 beginning in 2006 and continuing through 2012, \$20,064 for 2012-2015, \$19,488 in 2016, and \$17,198 from 2017 through 2042. The District could also be required to repay additional sums against the water supply works costs if it is determined that they have the ability to pay. The Bureau will evaluate the District's ability to pay every five years. The District's water supply repayment obligation for the existing water supply works shall be fully satisfied at the end of the 40-year contract in the year 2042.

NOTE D - RETIREMENT PLAN

Effective January 1, 1998, the District adopted a Simple IRA plan covering all eligible employees. This plan provides for District matching contributions of employee contributions at a rate of up to 3% of the employee's salaries for the year ended December 31, 2012.

NOTE E - CAFETERIA PLAN

The District adopted a flexible benefit plan under Internal Revenue Code Section 125 "Cafeteria Plan" effective January 15, 1998. The purpose of the program is to allow employees, through a salary reduction agreement, to select their plan benefits within the guidelines of the Revenue Act of 1975. The benefits available include cancer, disability, accident, and life insurance. All employees of the District are eligible to participate immediately upon the first day of employment.

KIRWIN IRRIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012

NOTE F - RELATED PARTIES

Kirwin Irrigation District No. 1 and the Webster Irrigation District No. 4 are operating under a joint operating agreement. They share equipment, employees and management. Each District's share of equipment cost is based on a predetermined formula in the agreement.

Each Irrigation District is controlled by a separate board.

NOTE G - RISK MANAGEMENT CLAIMS AND JUDGMENTS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District carries commercial insurance for risks of loss, including property, general liability, workmen's compensation, automobile, and surety bond coverage. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At December 31, 2012 the financial statements do not include liabilities for anticipated costs.

NOTE H - COMPLIANCE WITH KANSAS STATUTES

Minutes do not contain an adequate record of the proceedings of the Board of Directors which is in conflict with K.S.A. 13-518 and 13-2106.

KIRWIN IRRIGATION DISTRICT NO. 1

SCHEDULE OF EXPENDITURES COMPARED WITH BUDGET

For the Year Ended December 31, 2011

<u>General Fund</u>	<u>General and Administrative</u>	<u>Operating Expense</u>	<u>Total Expenditures</u>	<u>Budget</u>	<u>Expenditures Over (Under) Budget</u>
Salaries & Wages including Payroll Taxes & Retirement Contributions	\$36,184	\$ 105,219	\$ 141,403	\$ 147,900	\$ (6,497)
Health & Life Insurance	10,724	46,658	57,382	69,527	(12,145)
Insurance & Bonds	27,563	-	27,563	20,000	7,563
Utilities & Telephone	5,095	-	5,095	6,500	(1,405)
Irrigation Meeting Expense	968	-	968	2,400	(1,432)
Postage & Office Supplies	5,843	-	5,843	4,400	1,443
Directors' Fees	1,125	-	1,125	1,200	(75)
Attorney Fees	150	-	150	1,000	(850)
Audit Fees	2,054	-	2,054	2,000	54
Printing/ Miscellaneous	35	-	35	5,444	(5,409)
Nonprofit Resale	157,215	-	157,215	-	157,215
Motor Fuel & Oil	-	28,265	28,265	24,000	4,265
Tools & Equipment	-	53,535	53,535	35,300	18,235
Maintenance	-	31,928	31,928	23,000	8,928
Weed Spray & Other Materials	-	47,413	47,413	19,500	27,913
Dam Operations & Maintenance	-	13,291	13,291	10,000	3,291
Meters	11,522	-	11,522	13,000	(1,478)
Repairs	-	5,652	5,652	12,500	(6,848)
Supplies	-	4,280	4,280	4,000	280
Tags	-	969	969	240	729
Water Supply Contract Payment	-	44,923	44,923	39,556	5,367
Reimbursable Expenditures	-	3,197	3,197	-	3,197
Adjustment for Qualifying Budget Credits	-	-	-	201,946	(201,946)
	<u>\$ 258,478</u>	<u>\$ 385,330</u>	<u>\$ 643,808</u>	<u>\$ 643,413</u>	<u>\$ 395</u>

The notes to the financial statements are an integral part of this statement.